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Indonesia

Oilseeds and Products Update

Oilseeds and Products Update 2013

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Report Highlights:

- Minister of Trade Regulation No. 25 (Regulation No. 25) that aimed at providing price and market guarantee for soybeans is unlikely to automatically trigger farmers to grow more soybeans due to unfavorable weather conditions and revenue.
- Soybean shipments to Indonesia for October delivery could experience delays if Minister of Trade Regulation No. 24/2013 (Regulation No. 24) is implemented as written.
- 2011-2013 forest moratorium which has been extended to May 2015 and series of land use disputes have not put a brake on oil palm area expansion in Indonesia. Indonesian oil palm area is expected to reach 10.325 million hectares in 2014.

Post:

Jakarta

Soybeans, Oilseed

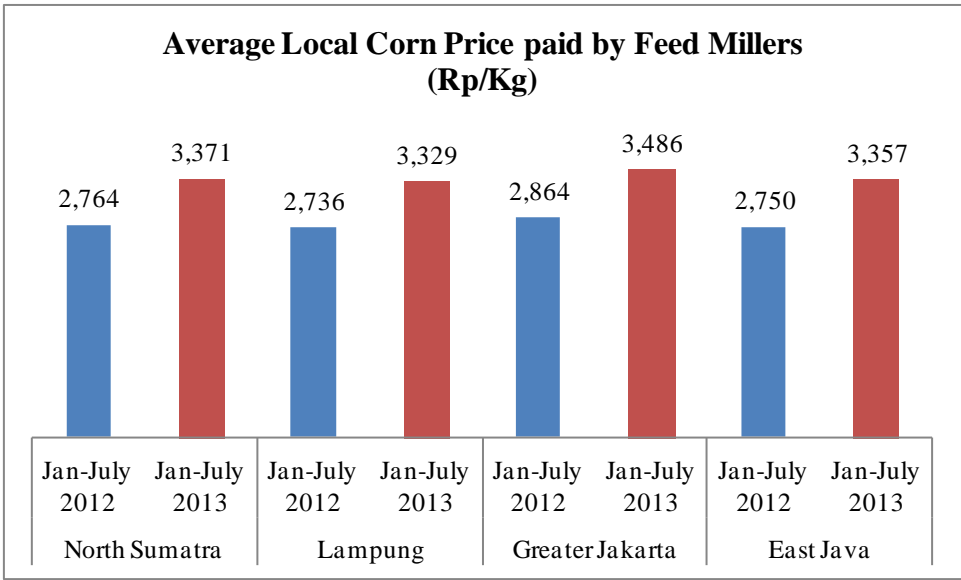
Production

Regulation No. 25 set minimum farm gate price (FGP) for local soybeans at IDR 7,000 per kilogram. In addition, MOT mandates soybean importers and the National Logistics Agency (BULOG) to purchase local beans at set prices. Farmers are eligible for FGP if their soybeans satisfy the following quality standards:

- Maximum moisture content of 14%
- Split kernels of at most 3%
- Damaged kernels of at most 3%
- Kernels of other colors of at most 5%
- Impurity of at most 2%
- Shriveled kernel of at most 3%

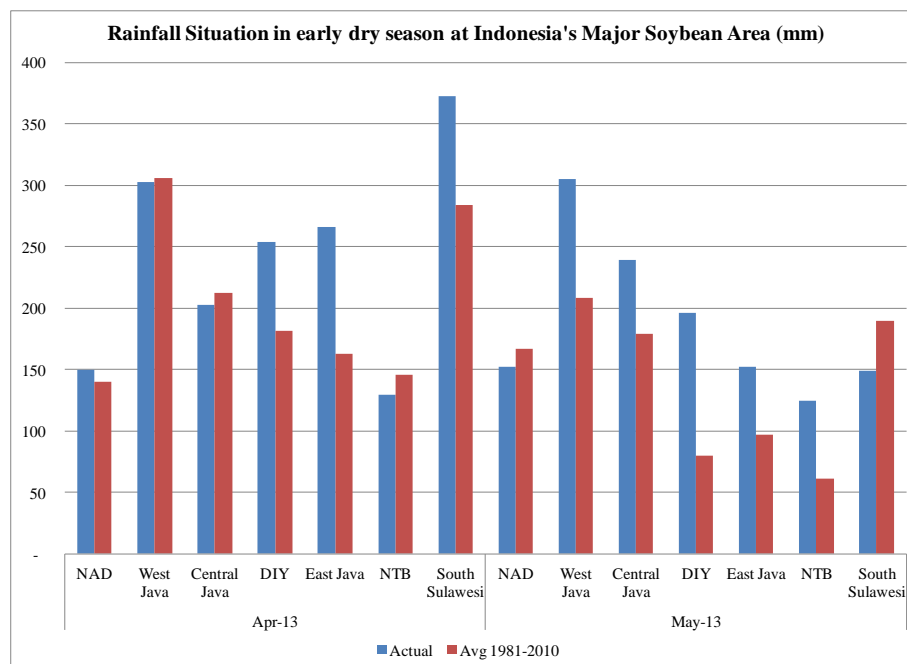
FGP and an obligation of importers and BULOG to purchase local soybeans are intended to encourage farmers to grow more soybeans. However, post anticipates that these measures are unlikely to automatically and easily motivate farmers to expand their soybean planting area in both MY 2012/2013 and MY 2013/2014 due to the following factors:

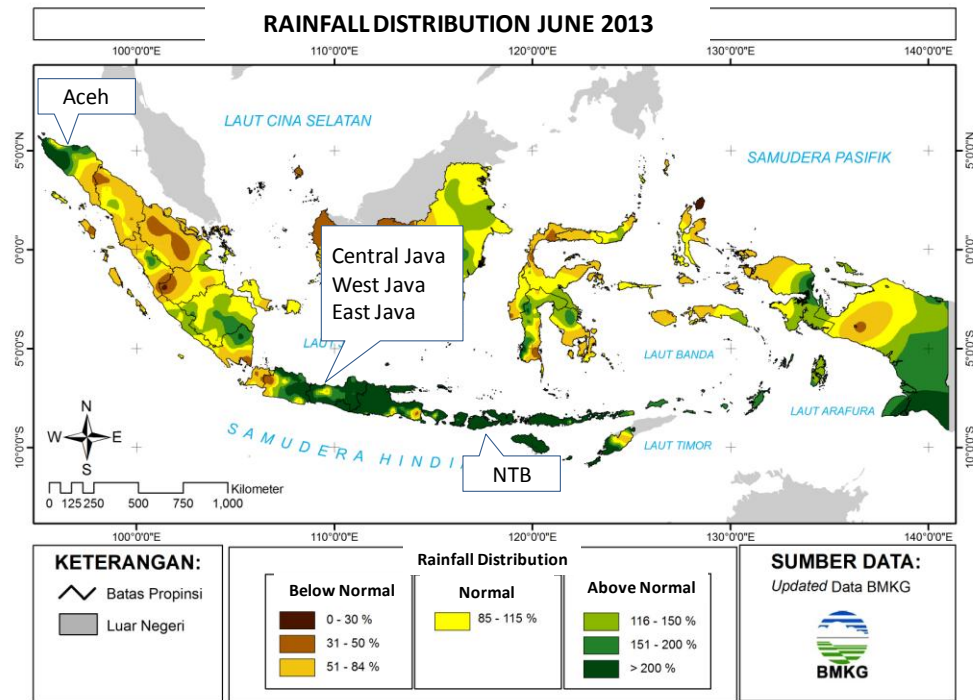
1. Growing corn is more profitable for farmers. In the normal price situation, a farmer can earn revenue per hectare of IDR 12.5 million from growing corn compared to IDR 9.8 million from cultivating soybeans. The recent local corn price rally due to more restrictive policy in importing corn has raised corn revenue by 22 percent to IDR 15.4 million per hectare. The current situation, therefore, is expected to discourage farmers to increase soybean production as they are more highly motivated to expand corn planting area.



Source: USSEC Indonesia

2. Indonesia is currently experiencing wet dry season. Normally, Indonesia is in dry season from April to September, and farmers in non-irrigated paddy fields will start preparing the land for secondary crops such as corn and soybeans in early dry season. Wet dry season, however, resulted in above normal rainfall in Indonesia's major soybean area in the first half of dry season (April-June 2013). Consequently, farmers kept growing paddy due to ample water availability. Growing secondary crops in high rainfall situation is also risky due to possible flooding that can harm the crops. It has been reported in the public media that many parts of Java Island has been hit by floods in the last two months. The current supply shortage of shallots and chili is also evidence that shows farmers' reluctance to grow flood sensitive crops to include soybeans.





Source: BMKG

Farmers in the upland areas are still able to grow secondary crops in the current wet dry season. However, they prefer to grow corn instead of soybeans. Soybeans, therefore, are in tough competition with rice and corn for cultivating land.

3. Farmers usually find a hard time to meet quality standards that enable them to sell soybeans at FGP due to poor post harvest infrastructure. Farmers may decide not to grow soybeans if they consider the weather during harvest time is not so favorable.

With those abovementioned factors, Post maintains Indonesian soybean production at 620,000 metric tons in MY 2012/2013 and in MY 2013/2014.

Consumption

In Indonesia, soybeans are primarily used to produce tofu and tempeh. The increasing use of full fat soybeans (FFSB), however, is expected to raise feed use of soybeans. FFSB in feed formulation is used as a soybean meal (SBM) substitute. Demand for FFSB, therefore, depends on FFSB price itself and domestic SBM supply. In practice, feed millers will combine FFSB and SBM in their feed formulation to achieve least cost feed formula. Indonesian Feed Miller Association estimates that approximately 100,000 metric tons of soybeans are currently used to produce FFSB.

Trade

Indonesian soybean imports in the first 7-month of MY 2012/2013 slightly increased by 0.54 percent to 1.085 MMT. Post anticipates that soybean exports to Indonesia may be lower in 2013 than that of last year due to the implementation of Regulation No. 24 which introduces more restrictive requirements in importing soybeans. According to this regulation, soybean importers must apply to become registered importers (IT), and also obtain import permits (SPI) from MOT. Moreover, importers must show verified receipt or sales contract for local soybeans in order to receive a permit from MOT. As of the date of this report, MOT has issued no import permits.

Stock

Soybean shipments to Indonesia for October delivery could experience delays if the new regulation is implemented as written. Post estimates that stocks at the end of July are sufficient to satisfy demand through September. Most importers plan to place orders by early August for October delivery, but some may be reluctant to do so without having import permits in hand.

According to the new regulation, imported soybean shipments that arrive in Indonesian ports of entry after August 12, 2013 will be subject to new requirements stipulated in Regulation No. 24. The issuance of SPI complicated by lack of readiness and coordination between key governments agencies to include MOT, Min of Agriculture (MOA), and National Logistics Agency (BULOG). The issuance of SPI requires local soybean purchase receipt or contract verified and signed by BULOG. BULOG, however, is not ready to do the verification due to lack of established Standard Operating Procedures. Moreover, MOA has yet to provide clear information and guidance regarding the availability of local soybeans.

Oilseed, Soybean Indonesia	2011/2012		2012/2013		2013/2014		
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: May 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	550	550	550	550	550	550	(1000 HA)
Area Harvested	450	450	450	450	450	450	(1000 HA)
Beginning Stocks	68	68	51	51	41	40	(1000 MT)
Production	620	620	620	620	620	620	(1000 MT)
MY Imports	1,922	1,922	1,920	1,990	2,100	2,100	(1000 MT)
MY Imp. from U.S.	1,756	1,756	1,850	1,850	1,950	1,950	(1000 MT)
MY Imp. from EU	0	0	0	0	0	0	(1000 MT)
Total Supply	2,610	2,610	2,591	2,661	2,761	2,760	(1000 MT)
MY Exports	1	7	1	1	1	1	(1000 MT)
MY Exp. to EU	0	0	0	0	0	0	(1000 MT)
Crush	0	0	0	0	0	0	(1000 MT)
Food Use Dom. Cons.	2,512	2,512	2,520	2,520	2,690	2,620	(1000 MT)
Feed Waste Dom. Cons.	46	40	29	100	29	100	(1000 MT)
Total Dom. Cons.	2,558	2,552	2,549	2,620	2,719	2,720	(1000 MT)
Ending Stocks	51	51	41	40	41	39	(1000 MT)
Total Distribution	2,610	2,610	2,591	2,661	2,761	2,760	(1000 MT)
CY Imports	2,000	2,000	2,050	2,050	2,100	2,100	(1000 MT)
CY Imp. from U.S.	1,882	1,882	1,850	1,850	1,950	1,950	(1000 MT)
CY Exports	0	0	0	0	0	0	(1000 MT)
CY Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
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Palm, Oil

Production

Post currently forecast 2012/13 palm oil production in Indonesia at 28.5 million tons. Production will further increase to 31 million tons in the next marketing year (2013/14). Planting area expansion is still playing a pivotal role in Indonesian palm oil production growth. Post anticipates that the 2011-2013 forest moratoriums, which has been extended to May 2015, and land use disputes will not ease oil palm area expansion based on the following indications:

- Robust oil palm seed sales performance. Oil palm breeders were able to sell 163 million seeds in 2012, and they set a sales target of 162 million seeds in 2013. Strong sales growth of oil palm seeds indicates that Indonesia palm oil sector is still able to open a sizable new planting area. Oil palm seed demand comes from two main activities i.e. new planting and replanting to replace old and/or bad crops.

According to Central Statistical Agency data, replanting rate in Indonesia stands at around 100,000 hectares per year. One hectare of oil palm plantation requires 200 seeds. A 2012 seed sales data at 163 million seeds minus replanting rate of 100,000 hectares per year suggests that Indonesia will open 715,000 hectares new oil palm area in 2013.

- Most major palm oil companies already secured their land concession prior to enforcement of the first moratorium in May 2011. Data and information from various sources indicates that total land concession received by ten Indonesian major palm oil companies before forest moratorium came online stand at nearly 2.3 million hectares. By the end of 2012, 33 percent or equal to 763,000 hectares of total land concession is yet to planted. Unplanted oil palm area figure and seed sales data in 2012 support our estimation that Indonesia's oil palm area will be expanding by more than 700,000 hectares this year.

The figures of unplanted oil palm concession area will be even bigger if idle land bank belonging to Malaysian Palm Oil Company is included. According to Indonesian Oil Palm Farmers Association, Malaysian palm oil companies control approximately 1.5-2 million hectares of oil palm concession area in Indonesia. The abovementioned figures suggest that Indonesian palm oil producers still have sufficient room to maintain rapid oil palm area expansion in several years to come.

- Post sees that the contribution of smallholder to Indonesian oil palm area expansion is significant due to fewer complications in licensing process. An oil palm plantation less than 25 hectares don't need a license/permit. Smallholders, therefore, can easily and quickly clear their land and/or converting their other crops into oil palm plantation. This exemption creates incentives for smallholders to grow oil palm in the nearby land that they consider abandoned. This is a practice that frequently leads to dispute between smallholders and the party that has a legal ownership on the abandoned land.

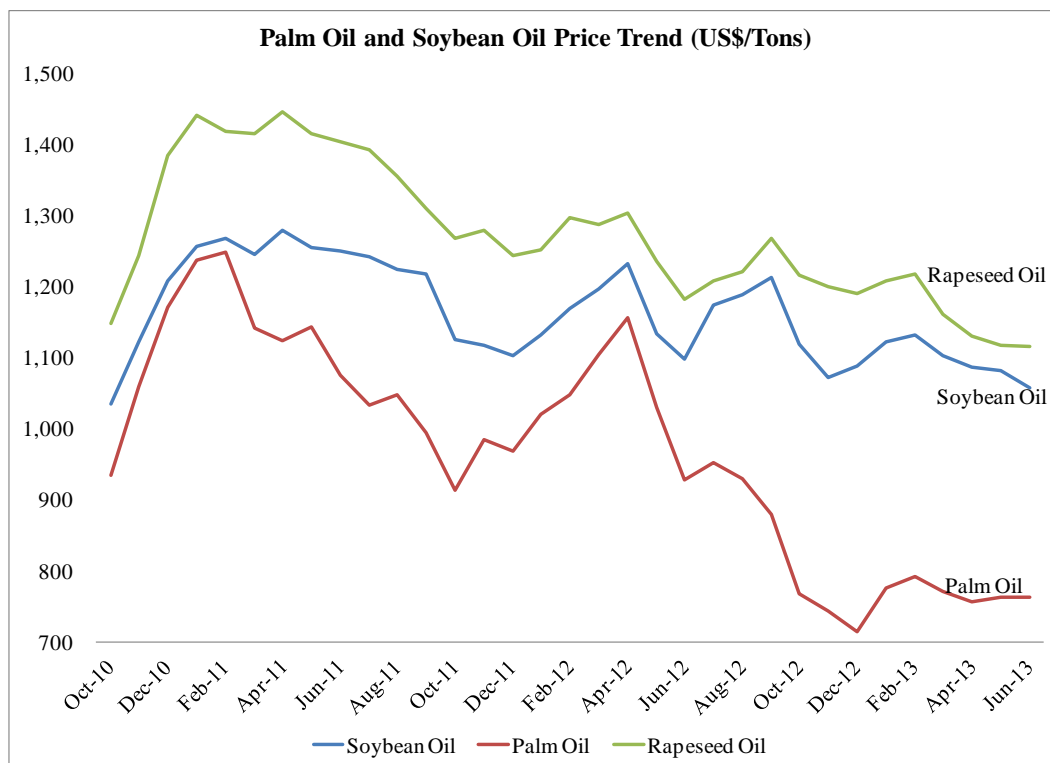
Consumption

Biodiesel industry accounts for 28 percent of total domestic CPO consumption. Possible decline in Indonesian biodiesel production may lead to lower domestic demand for CPO. The European market accounts for approximately 88 percent of total Indonesian biodiesel export by volume. European Commission recently imposed anti-dumping duties on Indonesian biodiesel. The measure is expected to lower Indonesian biodiesel export in 2013 and 2014. Limited domestic consumption of biodiesel may force producers to scale back their production if they cannot find alternative export markets.

Post, however, anticipates that Indonesian biodiesel export performance will remain strong this year due to some factors explained in our [Annual Biofuel Report 2013](#). Indonesian domestic palm oil consumption, therefore, will keep growing by almost 10 percent to 7.815 million tons in MY 2012/2013.

Trade

Indonesian palm oil export increased by almost 13 percent to 12.53 million tons in the first 7-months of MY 2012/2013. Current export performance suggests that Indonesia can export as high as 21 million tons of palm oil in MY 2012/2013.



Source: CBOT

Low palm oil prices since early last year has become the major factor that drove up global palm oil demand. The below-chart shows that palm oil prices discount over soybean and rapeseed oil has been increasing from US\$ 170 to US\$ 300 per ton and from US\$ 255 to US\$ 355 per ton respectively within June 2012-June 2013 timeframe. Larger discount makes palm oil prices more attractive and more competitive compared to that of sub-tropical oils such as soy and rapeseed oil.

Stock

Indonesian palm oil development has exhibited positive growth in production and consumption as well as exports. Production has experienced the strongest growth than that of consumption and exports. Consequently, Indonesia's palm oil ending stock has been on the uptrend. Stocks will increase from 1.45 million tons in MY 2011/2012 to 2 million tons in MY 2012/2013, and it is expected to further increase to 3.5 million tons in MY 2013/2014.

Oil, Palm Indonesia	2011/2012		2012/2013		2013/2014		
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Area Planted	0	9,540	0	9,935	0	10,325	(1000 HA)
Area Harvested	0	7,220	0	7,685	0	8,115	(1000 HA)
Trees	0	1,431,000	0	1,490,250	0	1,548,750	(1000 TREES)
Beginning Stocks	825	825	1,445	1,445	2,031	2,031	(1000 MT)
Production	26,200	26,200	28,500	28,500	31,000	31,000	(1000 MT)
MY Imports	1	1	1	1	1	1	(1000 MT)
MY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
MY Imp. from EU	0	0	0	0	0	0	(1000 MT)
Total Supply	27,026	27,026	29,946	29,946	33,032	33,032	(1000 MT)
MY Exports	18,452	18,452	20,100	20,100	21,000	21,000	(1000 MT)
MY Exp. to EU	2,498	2,498	2,285	2,285	2,800	2,800	(1000 MT)
Industrial Dom. Cons.	2,211	2,211	2,735	2,735	2,975	2,975	(1000 MT)
Food Use Dom. Cons.	4,702	4,702	4,845	4,845	5,270	5,270	(1000 MT)
Feed Waste Dom. Cons.	216	216	235	235	256	256	(1000 MT)
Total Dom. Cons.	7,129	7,129	7,815	7,815	8,501	8,501	(1000 MT)
Ending Stocks	1,445	1,445	2,031	2,031	3,531	3,531	(1000 MT)
Total Distribution	27,026	27,026	29,946	29,946	33,032	33,032	(1000 MT)
CY Imports	1	1	1	1	1	1	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
CY Exports	18,727	18,727	20,300	20,300	21,000	21,000	(1000 MT)
CY Exp. to U.S.	43	43	50	50	50	50	(1000 MT)
TS=TD		0		0		0	
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